

as were applicable under the MCI Stock Option Plans (as modified by this Section 5.8 and Annex A hereto), that number of BT ADSs determined by multiplying the number of shares of MCI Common Stock subject to such MCI Stock Option by the Conversion Ratio, rounded, if necessary, up to the nearest whole BT ADS, at a price per share equal to (y) the aggregate exercise price for the shares of MCI Common Stock subject to such MCI Stock Option divided by (z) the number of BT ADSs deemed to be subject to such MCI Stock Option; provided, however, that in the case of any MCI Stock Option to which section 421 of the Code applies by reason of its qualification under section 422 of the Code, the option price, the number of shares subject to such option and the terms and conditions of exercise of such option shall be determined in a manner consistent with the requirements of section 424(a) of the Code. For purposes of this Section 5.8, the "Conversion Ratio" means the sum of (i) 0.54 and (ii) the quotient determined by dividing the amount of the Cash Consideration by the average of the last sales prices on the NYSE Composite Transaction Tape of the BT ADSs on each of the five consecutive trading days ending on the last trading day immediately prior to the day on which the Effective Time occurs.

(c) Each option to acquire a BT ADS which has been converted from an MCI Stock Option pursuant to the terms of Section 5.8(b) shall be amended as of the Effective Time to provide for the payment (or, in certain cases, elective deferral) of dividend equivalents equal to the amount of any dividends that would have been paid to the holder thereof following the Effective Time had the BT ADSs underlying such options been delivered and outstanding on the applicable dividend record date; provided, however, that any such dividend equivalents shall be credited to a bookkeeping account in the name of the option holder and shall be paid to such option holder (with interest at the prime rate as published by Chase Manhattan Bank, N.A.) when the related option is exercised (or, if elected by such option holder, further deferred under the terms of MCI's deferred compensation program); provided further, however, that any such dividend equivalents that are credited to such a bookkeeping account in respect of any option that is not subsequently exercised shall be forfeited upon the expiration or forfeiture of such option in accordance with its terms.

(d) Each holder of a restricted share of MCI Common Stock (an "MCI Restricted Share") issued pursuant to the MCI Stock Option Plans shall be offered, prior to the Effective Time, the opportunity to convert such MCI Restricted Share into an incentive stock unit (a "Converted ISU") that represents a contractual right to receive one share of MCI Common Stock on the terms and conditions specified in Annex B hereto, subject to the same terms and conditions as were applicable to the MCI Restricted Share immediately prior to the Effective Time (as modified by this Section 5.8 and Annex B hereto). Each holder of an MCI Restricted Share that has not been converted in accordance with the terms of the previous sentence shall be entitled to receive, as of the Effective Time, for each Restricted Share held by such holder immediately prior to the Effective Time, (i) 0.54 restricted BT ADSs on the same terms and conditions applicable to the MCI Restricted Shares immediately prior to the Effective Time (as modified by this Section 5.8) and (ii) the Cash Consideration which shall be paid promptly after the Effective Time.

(e) Effective as of the Effective Time, each Converted ISU, Senior Retention ISU and 1997 ISU outstanding immediately prior to the Effective Time (collectively, the "MCI ISUs") shall be converted into (i) an incentive stock unit to receive 0.54 BT ADSs, on the same terms and conditions applicable to the MCI ISUs immediately prior to the Effective Time (as modified by this Section 5.8 and Annex B hereto) and (ii) the Cash Consideration which shall be paid promptly after the Effective Time.

(f) As soon as practicable after the Effective Time, BT shall deliver to the holders of MCI Stock Options, MCI Restricted Shares and MCI ISUs (collectively, the "MCI Awards") appropriate notices setting forth such holders' rights pursuant to the applicable MCI Benefit Plans and the agreements pursuant to which such MCI Awards were issued and the agreements evidencing the grants of such MCI Awards shall continue in effect on the same terms and conditions as specified with respect to such MCI Awards as of the Effective Time in the applicable MCI Benefit Plan governing such MCI Awards (subject to the adjustments and amendments required by this Section 5.8 and Annexes A and B hereto, and after giving effect to the Merger and the conversion as set forth above). It is the intention of the parties that, subject to applicable law, each MCI Stock Option which qualified as an incentive stock option under section 422 of the Code prior to the Effective Time continue to qualify as an incentive stock option of BT after the Effective Time.

(g) BT shall take all corporate action necessary to have available for delivery a sufficient number of BT Ordinary Shares represented by BT ADSs to be delivered upon exercise, vesting or payment, as applicable, of the MCI Awards converted in accordance with this Section 5.8. As soon as practicable after the Effective Time, BT shall file a registration statement on Form S-8 (or any successor or other appropriate form) with respect to the delivery of such BT ADSs and shall use its best efforts to maintain the effectiveness of such registration statement or registration statements (and maintain the current status of the prospectus or prospectuses contained therein) for so long as such MCI Awards remain outstanding.

(h) Prior to the Effective Time, BT and MCI shall cooperate to take all such other action as may be necessary to carry out the terms of this Section 5.8.

5.9. Employment Agreements: Employee Benefits Matters. (a) MCI has entered into employment agreements (the "Employment Agreements") with the eight senior executives whose names have been provided to BT prior to the date of this Agreement, and in the forms provided to BT prior to the date of this Agreement. Promptly after the date of this Agreement, BT and MCI shall cooperate in good faith to resolve any tax issues that may arise with regard to the identity of the employer for purposes of the Employment Agreements. MCI shall use its reasonable efforts in good faith to amend the Employment Agreements to reflect the foregoing resolution.

(b) Annexes A and B hereto set forth certain additional agreements among the parties hereto with respect to employee benefits matters and are hereby incorporated herein by reference.

5.10. Fees and Expenses. Whether or not the Merger is consummated, all Expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the party incurring such Expenses, except (a) if the Merger is consummated, the Surviving Corporation shall pay, or cause to be paid, any and all property or transfer taxes imposed on MCI or its Subsidiaries and any real property transfer tax imposed on any holder of shares of capital stock of MCI resulting from the Merger, (b) Expenses incurred in connection with filing, printing and mailing the Disclosure Documents and with listing on the NYSE the BT ADSs into which MCI Common Stock shall be converted shall be shared equally by BT and MCI and (c) as provided in Section 7.2. As used in this Agreement, "Expenses" includes all out-of-pocket expenses (including, without limitation, all fees and expenses of counsel, accountants, investment bankers, experts and consultants to a party hereto and its affiliates) incurred by a party or on its behalf in connection with or related to the authorization, preparation, negotiation, execution and performance of this Agreement and the transactions contemplated hereby, including the preparation, printing, filing and mailing of the Disclosure Documents and the solicitation of stockholder approvals and all other matters related to the transactions contemplated hereby.

5.11. Indemnification: Directors' and Officers' Insurance. The Surviving Corporation shall cause to be maintained in effect (i) for a period of six years after the Effective Time, the current provisions regarding indemnification of officers and directors contained in the certificate of incorporation and by-laws of MCI and (ii) for a period of six years, the current policies of directors' and officers' liability insurance and fiduciary liability insurance maintained by MCI (provided that the Surviving Corporation may substitute therefor policies of at least the same coverage and amounts containing terms and conditions which are, in the aggregate, no less advantageous to the insured) with respect to claims arising from facts or events that occurred on or before the Effective Time; provided, however, that in no event shall the Surviving Corporation be required to expend in any one year an amount in excess of 200% of the annual premiums currently paid by MCI for such insurance; and, provided, further, that if the annual premiums of such insurance coverage exceed such amount, the Surviving Corporation shall be obligated to obtain a policy with the greatest coverage available for a cost not exceeding such amount.

5.12. Rights Agreement. The Board of Directors of MCI shall take all further action (in addition to that referred to in Section 3.1(m)) necessary (including redeeming the Rights immediately prior to the Effective Time or amending the Rights Agreement) in order to render the Rights inapplicable to the Merger and the other transactions contemplated by this Agreement.

5.13. Interim Cooperative Arrangements. BT and MCI agree to use all reasonable efforts to negotiate and implement such interim cooperative arrangements as may

be appropriate to enable the parties, prior to Closing, to realize to the extent practicable the benefits anticipated from the Merger.

5.14. Public Announcements. MCI and BT shall use all reasonable efforts to develop a joint communications plan and each party shall use all reasonable efforts (i) to ensure that all press releases and other public statements with respect to the transactions contemplated hereby shall be consistent with such joint communications plan, and (ii) unless otherwise required by applicable law or by obligations pursuant to any listing agreement with or rules of any securities exchange, to consult with each other before issuing any press release or otherwise making any public statement with respect to this Agreement or the transactions contemplated hereby.

5.15. Investment Agreement. MCI hereby waives compliance by BT with the provisions of Section 7 of the Investment Agreement as required in order to permit the consummation of the transactions contemplated by this Agreement. Immediately prior to the Effective Time, the Investment Agreement shall be deemed to have been amended to delete Section 7 thereof in its entirety. BT hereby waives compliance by MCI with the provisions of Sections 9.4(a) and 9.5(d) of the Investment Agreement (i) from the date of this Agreement until termination of this Agreement in accordance with its terms and (ii) for such period of time after a termination of this Agreement by MCI in accordance with the terms of Section 7.1(f) as would be required in order to permit the consummation of the Superior Transaction proposed at the time of such termination; provided, however, that the waiver of compliance contained in this sentence shall not be effective if MCI is in breach of this Agreement. Except as provided in this Section 5.15, the Investment Agreement shall remain in full force and effect, and the parties shall continue to abide by their respective covenants and other obligations thereunder.

5.16. Repurchase Authorization. BT shall seek shareholder approval at the BT Shareholder Meeting of a resolution empowering BT to purchase from time to time up to approximately 990,000,000 BT Ordinary Shares following the Effective Time in accordance with Section 166 Companies Act. BT will consider favourably making such purchases following the Effective Time, as market conditions warrant.

5.17. Holding Company Structure; Name. The parties' intent is to create to the extent practicable at or following the Effective Time a holding company structure for the combined businesses of BT and MCI. In furtherance thereof:

- (a) As of the Effective Time, BT's name will be changed to Concert plc;
- (b) As of the Effective Time, BT will form a wholly owned subsidiary to be named British Telecommunications plc; and
- (c) Pending the Effective Time, the parties shall use all reasonable efforts to cause the respective local and long distance businesses of BT and MCI to be

operated or managed following the Effective Time or as soon thereafter as practicable through wholly owned United Kingdom and United States subsidiaries; provided that, with respect to the United Kingdom business, BT is satisfied in its reasonable judgment, after consultation with MCI, that there are no adverse tax or regulatory consequences (except for immaterial consequences).

5.18. Global Activities. MCI and BT hereby agree that, effective as of the date of this Agreement and pending the Closing, MCI's Chairman of the Board of Directors, on behalf of the boards of directors of MCI and BT, will assume management and oversight of the integration planning of the two companies' global activities to the extent permissible under antitrust and regulatory laws.

ARTICLE VI

CONDITIONS PRECEDENT

6.1. Conditions to Each Party's Obligation to Effect the Merger. The obligations of MCI, BT and Merger Sub to effect the Merger are subject to the satisfaction or waiver on or prior to the Closing Date of the following conditions:

(a) Stockholder Approvals. (i) MCI shall have obtained all approvals of holders of shares of capital stock of MCI necessary to approve this Agreement and all the transactions contemplated hereby (including the Merger) and (ii) BT shall have obtained all approvals of holders of share capital of BT necessary to approve this Agreement and all the transactions contemplated hereby (including the Merger and the share repurchase authorization referred to in Section 5.16).

(b) Stock Exchange Listings. The LSE shall have agreed to admit to the Official List (subject to allotment) the new BT Ordinary Shares to be issued in connection with the Merger and such agreement shall not have been withdrawn, and the BT ADSs to be issued in the Merger shall have been authorized for listing on the NYSE, subject to official notice of issuance.

(c) HSR Act. The waiting period (and any extension thereof) applicable to the Merger under the HSR Act shall have been terminated or shall have expired.

(d) FCC Order. If then legally required, an FCC Order shall have been obtained, which has not been revoked or stayed as of the Closing Date.

(e) Exon-Florio. Review and investigation under Exon-Florio shall have been terminated and the President shall have taken no action authorized under Exon-Florio.

(f) Securities Law. The Form F-4 filed by BT and the Form F-6 filed by the ADR Depositary shall have become effective under the Securities Act and no stop order suspending the effectiveness of such registration statements shall have been issued by the SEC and no proceeding for that purpose shall then be threatened by the SEC or shall have been initiated by the SEC and not concluded or withdrawn, and all state securities or "blue sky" authorizations necessary to carry out the transactions contemplated hereby shall have been obtained and be in full force and effect.

(g) No Injunctions or Restraints, Illegality. No temporary restraining order, preliminary or permanent injunction or other order issued by a court or other Governmental Entity of competent jurisdiction shall be in effect and have the effect of making the Merger illegal or otherwise prohibiting consummation of the Merger; provided, however, that the provisions of this Section 6.1(g) shall not be available to any party whose failure to fulfill its obligations pursuant to Section 5.4 shall have been the cause of, or shall have resulted in, such order or injunction.

(h) No Litigation. There shall not be pending or overtly threatened any suit, action, investigation or proceeding to which a Governmental Entity is a party (i) seeking to restrain or prohibit the consummation of the Merger or any of the other transactions contemplated by this Agreement or seeking to obtain from MCI or BT or any of their respective Subsidiaries any damages that are material in relation to MCI and its Subsidiaries taken as a whole or BT and its Subsidiaries, taken as a whole, as applicable, (ii) seeking to prohibit or limit the ownership or operation by MCI or BT or any of their respective Subsidiaries of any material portion of the business or assets of MCI and its Subsidiaries taken as a whole, or BT and its Subsidiaries taken as a whole, or seeking to require MCI or BT or any of their respective Subsidiaries to dispose of or hold separate any material portion of the business or assets of MCI and its Subsidiaries taken as a whole or BT and its Subsidiaries taken as a whole, as a result of the Merger or any of the other transactions contemplated by this Agreement, (iii) seeking to prohibit BT or any of its Subsidiaries from effectively controlling in any material respect the business or operations of MCI and its Subsidiaries taken as a whole, or BT and its Subsidiaries taken as a whole, or (iv) which otherwise would have a Material Adverse Effect on either MCI or BT; provided, however, that the provisions of this Section 6.1(h) shall not be available to any party whose failure to fulfill its obligations pursuant to Section 5.4 shall have been the cause of, or shall have resulted in, such suit, action, investigation or proceeding.

(i) EU Antitrust. BT and MCI shall have received in respect of the Merger and any matters arising therefrom: (i) confirmation by way of a decision from the Commission of the European Communities under Regulation 4064/89 (with

or without the initiation of proceedings under Article 6(1)(c) thereof) that the Merger and any matters arising therefrom are compatible with the common market; or (ii) confirmation either: (A) in writing from the office of Fair Trading that it is not the intention of the Secretary of State for Trade and Industry to refer the Merger and any matters arising therefrom to the Monopolies and Mergers Commission pursuant to part V of the Fair Trading Act 1973; or (B) following such a reference, that the Secretary of State for Trade and Industry has permitted the merger and any matters arising therefrom to take place; such confirmation being subject in each of Sections 6.1(i)(i) and 6.1(i)(ii)(A) and (B) above to the imposition of no conditions or undertakings or obligations or to the imposition only of conditions or undertakings or obligations which: (1) unless BT agrees otherwise, do not constitute a MCI Burdensome Condition; (2) unless MCI agrees otherwise, do not constitute a BT Burdensome Condition; (3) unless both BT and MCI agree otherwise, do not constitute a Combined Company Burdensome Condition .

(j) United Kingdom Treasury Consent. H.M. Treasury shall have consented pursuant to section 765(1)(c) of the Income and Corporation Taxes Act 1988, or H.M. Treasury or the Inland Revenue shall have confirmed that no such consent is required, to the issue of Common Stock of the Surviving Corporation contemplated by Section 1.8.

6.2. Additional Conditions to Obligations of BT and Merger Sub. The obligations of BT and Merger Sub to effect the Merger are subject to the satisfaction of, or waiver by BT, on or prior to the Closing Date of the following additional conditions:

(a) Representations and Warranties. Each of the representations and warranties of MCI set forth in this Agreement that is qualified as to materiality shall have been true and correct when made and shall be true and correct on and as of the Closing Date as if made on and as of such date (other than representations and warranties which address matters only as of a certain date which shall be true and correct as of such certain date), and each of the representations and warranties of MCI that is not so qualified shall have been true and correct in all material respects when made and shall be true and correct in all material respects on and as of the Closing Date as if made on and as of such date (other than representations and warranties which address matters only as of a certain date which shall be true and correct in all material respects as of such certain date), and BT shall have received a certificate of the chief executive officer and the chief financial officer of MCI to such effect.

(b) Performance of Obligations of MCI. MCI shall have performed or complied with all agreements and covenants required to be performed by it under this Agreement at or prior to the Closing Date that are qualified as to materiality and shall have performed or complied in all material respects with all other agreements and covenants required to be performed by it under this Agreement at or prior to the

Closing Date that are not so qualified as to materiality, and BT shall have received a certificate of the chief executive officer and the chief financial officer of MCI to such effect.

(c) Tax Opinion. BT shall have received the opinion of Shearman & Sterling, counsel to BT, to the effect that, on the basis of the facts, representations and assumptions set forth in such opinion (i) the Merger will be treated for United States Federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code, (ii) each of MCI, BT and Merger Sub will be a party to that reorganization within the meaning of Section 368(b) of the Code and (iii) no gain or loss will be recognized on the exchange of shares of MCI Common Stock for the Merger Consideration, except that gain, if any, shall be recognized to the extent of the Cash Consideration received, which opinion shall be dated on or about the date that is two Business Days prior to the date the Proxy Statement/Prospectus is first mailed to stockholders of MCI and which shall not have been withdrawn or modified in any material respect as of the Closing Date. The issuance of such opinion shall be conditioned on receipt of representation letters from each of MCI and BT. The specific provisions of each such representation letter shall be in form and substance satisfactory to Shearman & Sterling and Simpson Thacher & Bartlett, and each such representation letter shall be dated on or before the date of such opinion and shall not have been withdrawn or modified in any material respect as of the Closing Date.

(d) Inland Revenue Ruling. BT shall have received a ruling from the Inland Revenue confirming that no stamp duty reserve tax will be payable in respect of the issuance of BT Ordinary Shares to the ADR Depositary for the benefit of holders of MCI Common Stock.

(e) Required Regulatory Approvals. All Required Consents and all other authorizations, consents, orders and approvals of, and declarations and filings with, and all expirations of waiting periods imposed by, any Governmental Entity which, if not obtained in connection with the consummation of the transactions contemplated hereby, would have a Material Adverse Effect on MCI or BT (with or without including MCI as a Subsidiary after the Merger) (collectively, "Required Regulatory Approvals") shall have been obtained, have been declared or filed or have occurred, as the case may be, and all such Required Regulatory Approvals shall be in full force and effect; provided, however, that a Required Regulatory Approval shall not be deemed to have been obtained if in connection with the grant thereof there shall have been an imposition by any Governmental Entity of any condition, requirement, restriction or change of regulation, or any other action directly or indirectly related to such grant taken by such Governmental Entity (including with respect to divestitures of assets or Subsidiaries), which would either (i) have a Material Adverse Effect on MCI (an "MCI Burdensome Condition") or (ii) have a Material Adverse Effect on BT including MCI as a Subsidiary after the Merger (a "Combined Company Burdensome Condition").

(f) Burdensome Condition. There shall not have been any action taken or overtly threatened, or any statute, rule, regulation, order or decree enacted, entered, enforced or deemed applicable to the Merger by any Governmental Entity which imposes or seeks to impose any MCI Burdensome Condition or Combined Company Burdensome Condition.

6.3. Additional Conditions to Obligations of MCI. The obligations of MCI to effect the Merger are subject to the satisfaction of, or waiver by MCI, on or prior to the Closing Date of the following additional conditions:

(a) Representations and Warranties. Each of the representations and warranties of BT and Merger Sub set forth in this Agreement that is qualified as to materiality shall have been true and correct when made and shall be true and correct on and as of the Closing Date as if made on and as of such date (other than representations and warranties which address matters only as of a certain date which shall be true and correct as of such certain date), and each of the representations and warranties of each of BT and Merger Sub that is not so qualified shall have been true and correct in all material respects when made and shall be true and correct in all material respects on and as of the Closing Date as if made on and as of such date (other than representations and warranties which address matters only as of a certain date which shall be true and correct in all material respects as of such certain date), and MCI shall have received a certificate of the chief executive officer and the chief financial officer of BT to such effect.

(b) Performance of Obligations of BT. BT shall have performed or complied with all agreements and covenants required to be performed by it under this Agreement at or prior to the Closing Date that are qualified as to materiality and shall have performed or complied in all material respects with all agreements and covenants required to be performed by it under this Agreement at or prior to the Closing Date that are not so qualified as to materiality, and MCI shall have received a certificate of the chief executive officer and the chief financial officer of BT to such effect.

(c) Tax Opinion. MCI shall have received the opinion of Simpson Thacher & Bartlett, counsel to MCI, to the effect that, on the basis of the facts, representations and assumptions set forth in such opinion, (i) the Merger will be treated for Federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code, (ii) each of MCI, BT and Merger Sub will be a party to that reorganization within the meaning of Section 368(b) of the Code and (iii) no gain or loss will be recognized on the exchange of shares of MCI Common Stock for the Merger Consideration, except that gain, if any, shall be recognized to the extent of the Cash Consideration received, which opinion shall be dated on or about the date that is two Business Days prior to the date the Proxy Statement/Prospectus is first mailed to stockholders of MCI and which shall not have been withdrawn or modified in any material respect as of the Closing Date. The issuance of such opinion shall be

conditioned on receipt of representation letters from each of MCI and BT. The specific provisions of each such representation letter shall be in form and substance satisfactory to Shearman & Sterling and Simpson Thacher & Bartlett, and each such representation letter shall be dated on or before the date of such opinion and shall not have been withdrawn or modified in any material respect as of the Closing Date.

(d) Required Regulatory Approvals. All Required Consents and all other authorizations, consents, orders and approvals of, and declarations and filings with, and all expirations of waiting periods imposed by, any Governmental Entity which, if not obtained in connection with the consummation of the transactions contemplated hereby, would have a Material Adverse Effect on BT after the Merger, including MCI as a Subsidiary (collectively, "Regulatory Approvals Required"), shall have been obtained, have been declared or filed or have occurred, as the case may be, and all such Regulatory Approvals Required shall be in full force and effect; provided, however, that a Regulatory Approval Required shall not be deemed to have been obtained if in connection with the grant thereof there shall have been an imposition by any Governmental Entity of any condition, requirement, restriction or change of regulation, or any other action directly or indirectly related to such grant taken by such Governmental Entity (including with respect to divestitures of assets or Subsidiaries), which would either (i) have a Material Adverse Effect on BT (a "BT Burdensome Condition") or (ii) constitute a Combined Company Burdensome Condition.

(e) Burdensome Condition. There shall not have been any action taken or overtly threatened, or any statute, rule, regulation, order or decree enacted, entered, enforced or deemed applicable to the Merger by any Governmental Entity which imposes or seeks to impose any BT Burdensome Condition or Combined Company Burdensome Condition.

ARTICLE VII

TERMINATION AND AMENDMENT

7.1. Termination. This Agreement may be terminated at any time prior to the Effective Time, by action taken or authorized by the Board of Directors of the terminating party or parties, whether before or after approval of the matters presented in connection with the Merger by the stockholders of MCI and by the shareholders of BT:

(a) By mutual written consent of BT and MCI, by action of their respective Boards of Directors;

(b) By either MCI or BT if the Effective Time shall not have occurred on or before October 31, 1997 (the "Termination Date"); provided, however, that the right to terminate this Agreement under this Section 7.1(b) shall not be available to any party whose failure to fulfill any obligation under this Agreement has been the cause of, or resulted in, the failure of the Effective Time to occur on or before the Termination Date; and provided, further, that if on the Termination Date any conditions to the Closing set forth in Sections 6.1(c), (d), (e), (i) and (j), Section 6.2(e) and (f) and Section 6.3(d) and (e) shall not have been fulfilled, but all other conditions to the Closing shall be fulfilled or shall be capable of being fulfilled, then the Termination Date shall be extended to April 30, 1998;

(c) By either MCI or BT if any Governmental Entity (i) shall have issued an order, decree or ruling or taken any other action (which order, decree, ruling or other action the parties shall have used all reasonable best efforts to resist, resolve or lift, as applicable, subject to the provisions of Section 5.4) permanently restraining, enjoining or otherwise prohibiting the transactions contemplated by this Agreement, and such order, decree, ruling or other action shall have become final and nonappealable or (ii) shall have failed to issue an order, decree or ruling or to take any other action (which order, decree or ruling or other action the parties shall have used all reasonable best efforts to obtain, subject to the provisions of Section 5.4), in each case necessary to fulfill the conditions to the Closing set forth in Sections 6.1(c), (d), (e), (i) and (j), Section 6.2(e) and (f) and Section 6.3(d) and (e), as applicable, and such denial of a request to issue such order, decree, ruling or take such other action shall have become final and nonappealable;

(d) By either BT or MCI if the approval by the stockholders of MCI or of BT required for the consummation of the Merger or the other transactions contemplated hereby shall not have been obtained by reason of the failure to obtain the required vote at a duly held meeting of stockholders or at any adjournment thereof;

(e) By either MCI or BT if the Board of Directors of the other party (i) shall withdraw or modify in any adverse manner its approval or recommendation of this Agreement or the Merger, (ii) shall fail to reaffirm such approval or recommendation upon such party's request, (iii) shall approve or recommend any acquisition of such other party or a material portion of its assets or any tender offer for shares of its capital stock, in each case, other than by a party hereto or an affiliate thereof, or (iv) shall resolve to take any of the actions specified in clauses (i) through (iii) above;

(f) By either MCI or BT, upon five Business Days' prior notice to the other, if, as a result of a Superior Proposal received by such party from a Person other than a party to this Agreement or any of its affiliates, the Board of Directors of such party determines in good faith that their fiduciary obligations under applicable

law require that such Superior Proposal be accepted; provided, however, that (i) the Board of Directors of such party shall have concluded in good faith, after considering applicable provisions of law and after giving effect to all concessions which may be offered by the other party pursuant to clause (ii) below, on the basis of advice of counsel, that such action is necessary for such Board of Directors to act in a manner consistent with its fiduciary duties under applicable laws and (ii) prior to any such termination, such party shall, and shall cause its respective financial and legal advisors to, negotiate with the other party to this Agreement to make such adjustments in the terms and conditions of this Agreement as would enable such party to proceed with the transactions contemplated hereby; provided, however, that it shall be a condition to termination by BT pursuant to this Section 7.1(f) that BT shall have made the payment of the Alternative Transaction Fee to MCI required by Section 7.2(b), and it shall be a condition to termination by MCI pursuant to this Section 7.1(f) that MCI shall have made the payment of the Alternative Transaction Fee to BT required by Section 7.2(c);

(g) By BT, upon a breach of any representation, warranty, covenant or agreement on the part of MCI set forth in this Agreement, or if any representation or warranty of MCI shall have become untrue, in either case such that the conditions set forth in Section 6.2(a) or Section 6.2(b) would not be satisfied (a "Terminating MCI Breach"); provided, however, that, if such Terminating MCI Breach is capable of being cured by MCI prior to October 31, 1997 through the exercise of its best efforts and for so long as MCI continues to exercise such best efforts, BT may not terminate this Agreement under this Section 7.1(g); or

(h) By MCI, upon breach of any material representation, warranty, covenant or agreement on the part of BT and Merger Sub set forth in this Agreement, or if any representation or warranty of BT and Merger Sub shall have become untrue, in either case such that the conditions set forth in Section 6.3(a) or Section 6.3(b) would not be satisfied ("Terminating BT Breach"); provided, however, that, if such Terminating BT Breach is capable of being cured by BT prior to October 31, 1997 through the exercise of best efforts, so long as BT continues to exercise such best efforts, MCI may not terminate this Agreement under this Section 7.1(h).

7.2. Effect of Termination.

(a) In the event of termination of this Agreement by either MCI or BT as provided in Section 7.1, this Agreement shall forthwith become void and there shall be no liability or obligation on the part of BT or MCI or their respective officers or directors except (i) with respect to Sections 3.1(p), 3.2(n), the second sentence of Section 5.3, Section 5.10, this Section 7.2 and Article VIII and (ii) with respect to any liabilities or damages incurred or suffered by a party as a result of the willful breach by the other party of any of its representations, warranties, covenants or other agreements set forth in this Agreement.

(b) BT and MCI agree that (i) if MCI shall terminate this Agreement pursuant to Section 7.1(e) and, at the time of the occurrence of the circumstance permitting termination pursuant to such Section, there shall exist an Acquisition Proposal with respect to BT or (ii) if BT shall terminate this Agreement pursuant to Section 7.1(f) or (iii) if (A) BT or MCI shall terminate this Agreement pursuant to Section 7.1(d) due to the failure of BT's shareholders to approve and adopt this Agreement and (B) at the time of such failure to so approve and adopt this Agreement there shall exist an Acquisition Proposal with respect to BT and, within 12 months of the termination of this Agreement, BT enters into a definitive agreement with any third party with respect to an Acquisition Proposal, then BT shall pay to MCI an amount equal to the sum of (w) \$450,000,000 (the "Alternative Transaction Fee") and (x) all of MCI's Expenses up to an amount equal to \$15,000,000 (the "Expense Amount"). BT and MCI agree that, if MCI shall terminate this Agreement pursuant to Section 7.1(e) in circumstances in which the Alternative Transaction Fee is not payable, then BT shall pay to MCI an amount equal to the sum of (y) \$150,000,000 (the "Termination Fee") and (z) all of MCI's Expenses up to an amount equal to the Expense Amount.

(c) BT and MCI agree that (i) if BT shall terminate this Agreement pursuant to Section 7.1(e) and, at the time of the occurrence of the circumstance permitting termination pursuant to such Section, there shall exist an Acquisition Proposal with respect to MCI or (ii) if MCI shall terminate this Agreement pursuant to Section 7.1(f) or (iii) if (A) MCI or BT shall terminate this Agreement pursuant to Section 7.1(d) due to the failure of MCI's stockholders to approve and adopt this Agreement and (B) at the time of such failure to so approve and adopt this Agreement there shall exist an Acquisition Proposal with respect to MCI and, within 12 months of the termination of this Agreement, MCI enters into a definitive agreement with any third party with respect to an Acquisition Proposal, then MCI shall pay to BT an amount equal to the sum of (w) the Alternative Transaction Fee and (x) all of BT's Expenses up to an amount equal to the Expense Amount. BT and MCI agree that, if BT shall terminate this Agreement pursuant to Section 7.1(e) in circumstances in which the Alternative Transaction Fee is not payable, then MCI shall pay to BT an amount equal to the sum of (y) the Termination Fee and (z) all of BT's Expenses up to an amount equal to the Expense Amount.

(d) The Alternative Transaction Fee required to be paid pursuant to Section 7.2(b)(ii) or 7.2(c)(ii), as applicable, shall be made prior to, and shall be a pre-condition to effectiveness of termination of this Agreement pursuant such Sections and the Alternative Transaction Fee required to be paid pursuant to Section 7.2(b)(iii) or 7.2(c)(iii), as applicable, shall be made to the party entitled to receive such payment on the next Business Day after a definitive agreement is entered into with a third party with respect to an Acquisition Proposal. Any payment of an Alternative Transaction Fee or a Termination Fee otherwise required to be made pursuant to

Section 7.2(b) or 7.2(c) shall be made to the party entitled to receive such payment not later than two Business Days after termination of this Agreement. Payment of Expenses pursuant to Section 7.2(b) or 7.2(c) shall be made not later than two Business Days after delivery to the other party of notice of demand for payment and an itemization setting forth in reasonable detail all Expenses of the party entitled to receive payment (which itemization may be supplemented and updated from time to time by such party until the 60th day after such party delivers such notice of demand for payment). All payments under this Section 7.2 shall be made by wire transfer of immediately available funds to an account designated by the party entitled to receive payment.

7.3. Amendment. This Agreement may be amended by the parties hereto, by action taken or authorized by their respective Boards of Directors, at any time before or after approval of the matters presented in connection with the Merger by the stockholders of MCI or of BT, but, after any such approval, no amendment shall be made which by law or in accordance with the rules of any relevant stock exchange requires further approval by such stockholders without such further approval. This Agreement may not be amended except by an instrument in writing signed on behalf of each of the parties hereto.

7.4. Extension; Waiver. At any time prior to the Effective Time, the parties hereto, by action taken or authorized by their respective Boards of Directors, may, to the extent legally allowed, (i) extend the time for the performance of any of the obligations or other acts of the other parties hereto, (ii) waive any inaccuracies in the representations and warranties contained herein or in any document delivered pursuant hereto and (iii) waive compliance with any of the agreements or conditions contained herein. Any agreement on the part of a party hereto to any such extension or waiver shall be valid only if set forth in a written instrument signed on behalf of such party. The failure of any party to this Agreement to assert any of its rights under this Agreement or otherwise shall not constitute a waiver of those rights.

ARTICLE VIII

GENERAL PROVISIONS

8.1. Non-Survival of Representations, Warranties and Agreements. None of the representations, warranties, covenants and other agreements in this Agreement or in any instrument delivered pursuant to this Agreement, including any rights arising out of any breach of such representations, warranties, covenants and other agreements, shall survive the Effective Time, except for those covenants and agreements contained herein and therein that by their terms apply or are to be performed in whole or in part after the Effective Time and this Article VIII. Nothing in this Section 8.1 shall relieve any party for any breach of any

representation, warranty, covenant or other agreement in this Agreement occurring prior to termination.

8.2. Notices. All notices and other communications hereunder shall be in writing and shall be deemed duly given (a) on the date of delivery if delivered personally, or by telecopy or telefacsimile, upon confirmation of receipt, (b) on the first Business Day following the date of dispatch if delivered by a recognized next-day courier service, or (c) on the tenth Business Day following the date of mailing if delivered by registered or certified mail, return receipt requested, postage prepaid. All notices hereunder shall be delivered as set forth below, or pursuant to such other instructions as may be designated in writing by the party to receive such notice:

- (a) if to BT or Merger Sub, to

British Telecommunications plc
BT Centre
81 Newgate Street
Attention: Colin R. Green, Secretary and
Chief Legal Adviser
Facsimile No.: 011-44-171-356-6135

with copies to

Shearman & Sterling
599 Lexington Avenue
New York, New York 10022
Attention: Creighton O'M. Condon
Facsimile No.: (212) 848-7179

and

Shearman & Sterling
199 Bishopsgate
London EC2M 3TY
England
Attention: W. Jeffrey Lawrence
Facsimile No.: 011-44-171-920-9020

(b) if to MCI, to

MCI Communications Corporation
1801 Pennsylvania Avenue, NW
Attention: Michael Salsbury, Executive Vice President
and General Counsel
Facsimile No.: 202-887-3353

with a copy to

Simpson Thacher & Bartlett
425 Lexington Avenue
New York, New York 10017
Attention: Philip T. Ruegger
Facsimile No.: (212) 455-2502

8.3. Interpretation. When a reference is made in this Agreement to Sections, Exhibits or Schedules, such reference shall be to a Section of or Exhibit or Schedule to this Agreement unless otherwise indicated. The table of contents, glossary of defined terms and headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Whenever the words "include", "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation". The phrases "the date of this Agreement" and "the date hereof" shall be deemed to refer to November 3, 1996. The parties agree that the Closing conditions set forth in Section 6.2(a) and 6.2(b), respectively, shall be deemed not to be satisfied in the event the aggregate number of outstanding shares of MCI Common Stock and shares of MCI Common Stock subject to outstanding options, warrants and rights (i) as of the date of execution of this Agreement, or (ii) issued between the date of this Agreement and the Effective Time, in either case aggregates 500,000 or more shares than as represented by MCI under Section 3.1(b) or as permitted pursuant Section 4.1(c), respectively.

8.4. Counterparts. This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other party, it being understood that both parties need not sign the same counterpart.

8.5. Entire Agreement: No Third Party Beneficiaries. (a) This Agreement constitutes the entire agreement and supersedes all prior agreements and understandings, both written and oral, among the parties with respect to the subject matter hereof, other than the Confidentiality Agreement, which shall survive the execution and delivery of this Agreement.

(b) This Agreement shall be binding upon and inure solely to the benefit of each party hereto, and nothing in this Agreement, express or implied, is intended to or shall confer upon any other Person any right, benefit or remedy of any nature whatsoever under or by reason of this Agreement, other than Section 5.11 (which is intended to be for the benefit of the Persons covered thereby and may be enforced by such Persons).

8.6. Governing Law. This Agreement shall be governed and construed in accordance with the laws of the State of New York.

8.7. Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any law or public policy, all other terms and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner in order that the transactions contemplated hereby are consummated as originally contemplated to the greatest extent possible.

8.8. Assignment. Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any of the parties hereto, in whole or in part (whether by operation of law or otherwise), without the prior written consent of the other party, and any attempt to make any such assignment without such consent shall be null and void, except that Merger Sub may assign, in its sole discretion, any or all of its rights, interests and obligations under this Agreement to any direct or indirect wholly owned Subsidiary of BT without the consent of MCI, but no such assignment shall relieve Merger Sub of any of its obligations under this Agreement. Subject to the preceding sentence, this Agreement will be binding upon, inure to the benefit of and be enforceable by the parties and their respective successors and assigns.

8.9. Restrictive Trade Practices. Notwithstanding any other provisions of this Agreement, each party declares that it shall not give effect, and shall procure that none of its Subsidiaries shall give effect, to any restriction or restrictions contained in this Agreement which cause this Agreement to be registrable under the Restrictive Trade Practices Act 1976 until one day after particulars of this Agreement shall have been furnished to the Director General of Fair Trading. For the purposes of this Section 8.9, "Agreement" shall include any other agreement which, together with this Agreement, may form part of an agreement for the purposes of the Restrictive Trade Practices Act 1976.

8.10. Submission to Jurisdiction: Waivers. Each of BT and MCI irrevocably agrees that any legal action or proceeding with respect to this Agreement or for recognition and enforcement of any judgment in respect hereof brought by the other party hereto or its successors or assigns may be brought and determined in the Supreme Court of the State of New York in New York County or in the United States District Court for the Southern

District of New York, and each of BT and MCI hereby irrevocably submits with regard to any such action or proceeding for itself and in respect to its property, generally and unconditionally, to the nonexclusive jurisdiction of the aforesaid courts. Each of BT and MCI hereby irrevocably waives, and agrees not to assert, by way of motion, as a defense, counterclaim or otherwise, in any action or proceeding with respect to this Agreement, (a) the defense of sovereign immunity, (b) any claim that it is not personally subject to the jurisdiction of the above-named courts for any reason other than the failure to serve process in accordance with this Section 8.10, (c) that it or its property is exempt or immune from jurisdiction of any such court or from any legal process commenced in such courts (whether through service of notice, attachment prior to judgment, attachment in aid of execution of judgment, execution of judgment or otherwise), and (d) to the fullest extent permitted by applicable law, that (i) the suit, action or proceeding in any such court is brought in an inconvenient forum, (ii) the venue of such suit, action or proceeding is improper and (iii) this Agreement, or the subject matter hereof, may not be enforced in or by such courts.

8.11. **Enforcement.** The parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms. It is accordingly agreed that the parties shall be entitled to specific performance of the terms hereof, this being in addition to any other remedy to which they are entitled at law or in equity.

8.12. **Definitions.** As used in this Agreement:

(a) **"Board of Directors"** means the Board of Directors of any specified Person and any committees thereof.

(b) **"Business Day"** means any day on which banks are not required or authorized to close in either the City of New York or the City of London.

(c) **"FCC Order"** means either:

(i) A written order or other determination from the staff of the FCC (either in the first instance or upon review, reconsideration or other action subsequent to an order or other determination of the staff) either approving the consummation of the transactions contemplated by this Agreement or stating that no such approval is required (or, in the case of such review, reconsideration or other subsequent action, a written order or other determination to the effect set forth above or affirming or upholding, or having the effect of affirming or upholding, whether by dismissing or denying a petition for reconsideration or terminating the consideration thereof or otherwise, a previous order or determination to the effect set forth in this paragraph (i)), which order or determination shall no longer be subject to further administrative review by the FCC; or

(ii) A written or other determination from the FCC itself (either in the first instance or upon review, reconsideration or other action subsequent to an order or other determination of the staff of the FCC) either approving the consummation of the transactions contemplated by this Agreement or stating that no such approval is required (or, in the case of such review, reconsideration or other action subsequent to an order or determination of the staff of the FCC, a written order or other determination from the FCC itself to the effect set forth above or affirming, upholding or having the effect of affirming or upholding, whether by dismissing or denying a petition for reconsideration or application for review or terminating the consideration thereof or otherwise, an order or other determination of the staff of the FCC to the effect set forth in paragraph (i)).

For purposes of this definition, an order or other determination of the staff shall be deemed no longer subject to further administrative review by the FCC:

(x) If no petition for reconsideration or application for review by the FCC of the order or determination of the staff has been filed within 30 days after the date of public notice of the order or determination, as such 30-day period is computed and as such date is defined in sections 1.104 and 1.4, as applicable, of the FCC's rules, and the FCC has not initiated review of the order or determination of the staff on its own motion within 40 days after the date of public notice of the order or determination, as such 40-day period is computed and as such date is defined in sections 1.117 and 1.4 of the FCC's rules, or

(y) If any such petition for reconsideration or application for review has been filed, or, if the FCC has initiated review of the order or determination of the staff on its own motion, the FCC itself has issued a written order or other determination or taken other action to the effect set forth in paragraph (ii) above.

(d) "Material Adverse Effect" means, with respect to any entity, any adverse change, circumstance or effect that, individually or in the aggregate with all other adverse changes, circumstances and effects, is or is reasonably likely to be materially adverse to the business, operations, assets, liabilities (including, without limitation, contingent liabilities), financial condition or results of operations of such entity and its Subsidiaries taken as a whole.

(e) "the other party" means, with respect to MCI, BT and means, with respect to BT, MCI.

(f) "Person" means an individual, corporation, partnership, association, trust, unincorporated organization, entity or group (as defined in the Exchange Act).

(g) "Subsidiary" when used with respect to any party means any corporation or other organization, whether incorporated or unincorporated, (i) of which such party or any other Subsidiary of such party is a general partner (excluding partnerships, the general partnership interests of which held by such party or any Subsidiary of such party do not have a majority of the voting interests in such partnership) or (ii) at least a majority of the securities or other interests of which having by their terms ordinary voting power to elect a majority of the Board of Directors or others performing similar functions with respect to such corporation or other organization is directly or indirectly owned or controlled by such party or by any one or more of its Subsidiaries, or by such party and one or more of its Subsidiaries.

(h) (i) "Tax" (including, with correlative meaning, the terms "Taxes" and "Taxable") means all federal, state, local and foreign income, profits, franchise, gross receipts, environmental, customs duty, capital stock, severance, stamp, payroll, sales, employment, unemployment disability, use, property, withholding, excise, production, value added, occupancy and other taxes, duties or assessments of any nature whatsoever, together with all interest, penalties, fines and additions to tax imposed with respect to such amounts and any interest in respect of such penalties and additions to tax, and (ii) "Tax Return" means all returns and reports (including elections, claims, declarations, disclosures, schedules, estimates, computations and information returns) required to be supplied to a Tax authority in any jurisdiction relating to Taxes.

8.13. Other Agreements. The parties hereto acknowledge and agree that, except as otherwise expressly set forth in this Agreement, the rights and obligations of MCI and BT under the Investment Agreement, the Modified Joint Venture Agreement made the 14th day of June, 1994 between BT, Moorgate (Twelve) Limited, MCI, MCI Ventures Corporation, Shepperton Communications Company and any other agreement between the parties shall not be affected by any provision of this Agreement.

8.14. Waiver of Jury Trial. Each of the parties hereto irrevocably and unconditionally waives trial by jury in any legal action or proceeding relating to this Agreement or the transactions contemplated hereby and for any counterclaim therein.

IN WITNESS WHEREOF, BT, MCI and Merger Sub have caused this Agreement to be signed by their respective officers thereunto duly authorized, all as of November 3, 1996.

BRITISH TELECOMMUNICATIONS plc

ATTEST BY:

By: _____
Name: _____
Title: _____

MCI COMMUNICATIONS CORPORATION

ATTEST BY:

By: _____
Name: _____
Title: _____

TADWORTH CORPORATION

ATTEST BY:

By: _____
Name: _____
Title: _____

8.14. Waiver of Jury Trial. Each of the parties hereto irrevocably and unconditionally waives trial by jury in any legal action or proceeding relating to this Agreement or the transactions contemplated hereby and for any counterclaim therein.

IN WITNESS WHEREOF, BT, MCI and Merger Sub have caused this Agreement to be signed by their respective officers thereunto duly authorized, all as of November 3, 1996.

BRITISH TELECOMMUNICATIONS plc

ATTEST BY:

By: /s/ Colin R. Green
 Name: Colin R. Green
 Title: Secretary

MCI COMMUNICATIONS CORPORATION

ATTEST BY:

By: /s/ Bert C. Roberts, Jr.
 Name: Bert C. Roberts, Jr.
 Title: Chairman and Chief
 Executive Officer

/s/ Edward G. Freitag

TADWORTH CORPORATION

ATTEST BY:

By: /s/ Jack Greenberg
 Name: Jack Greenberg
 Title: President

***Exhibit 5.2(a) to
the Merger Agreement***

Reconstitution of the Board of Directors of BT

The Board of Directors of BT, as of the Effective Time, shall consist of the following persons:

Sir Iain Vallance
Bert C. Roberts, Jr.
Sir Peter Bonfield
Gerald H. Taylor
Sir Colin Marshall
Douglas L. Maine
Robert P. Brace

and eight other members, four of whom shall be designated by BT from among the directors of BT and four of whom shall be designated by MCI from among the directors of MCI; provided that the persons designated by each party shall be reasonably acceptable to the other party.

If prior to the Effective Time, any of Messrs. Roberts, Taylor or Maine or any other person designated by MCI shall decline or be unable to serve as a director of BT, MCI shall designate another person who is a then current director of MCI; provided that such designated person shall be reasonably acceptable to BT. If prior to the Effective Time, any of Messrs. Vallance, Bonfield, Marshall or Brace or any other person designated by BT shall decline or be unable to serve as a director of BT, BT shall designate another person who is a then current director of BT; provided that such designated person shall be reasonably acceptable to MCI.